

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 1887 - SB 2669**

February 24, 2018

**SUMMARY OF BILL:** Exempts from state and local sales and use tax any water furnished by a utility district that is used exclusively in a farming operation.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$1,134,400**

**Decrease Local Revenue – Net Impact – \$462,900**

**Assumptions:**

- An effective date of July 1, 2018.
- Exempting from state and local sales and use tax any water furnished by a utility district that is used exclusively in a farming operation will result in a reduction in state and local sales tax revenue.
- According to the Department of Revenue, and based on data from the National Agricultural Statistics Service at the U.S. Department of Agriculture, total utility expenses of Tennessee farms in 2017 was \$84,870,057.
- There has been, on average, 4 percent annual growth for utility expenses since 2013.
- Total utility expenses of \$88,264,859 for FY18-19 ( $\$84,870,057 \times 104\%$ ).
- An estimated 20 percent of utility expenses account for water consumption used exclusively in a farming operation.
- Taxable water consumption in FY18-19 is estimated to be \$17,652,972 ( $\$88,264,859 \times 20\%$ ). This number is assumed to remain constant into perpetuity.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- A recurring decrease in state revenue of \$1,191,012 [ $(\$17,652,972 \times 7\%) - (\$17,652,972 \times 7\% \times 3.617\%)$ ].
- A recurring decrease in local revenue of \$486,020 [ $(\$17,652,972 \times 2.5\%) + (\$17,652,972 \times 7\% \times 3.617\%)$ ].
- Fifty percent of tax savings, or \$838,516 [ $(\$1,191,012 + \$486,020) \times 50\%$ ], will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$56,573 [ $(\$838,516 \times 7\%) - (\$838,516 \times 7\% \times 3.617\%)$ ].

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- The recurring increase in local sales tax collections is estimated to be \$23,086  $[(\$838,516 \times 2.5\%) + (\$838,516 \times 7\% \times 3.617\%)]$ .
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$1,134,439  $(\$1,191,012 - \$56,573)$ .
- The net recurring decrease in local revenue as a result of this legislation is estimated to be \$462,934  $(\$486,020 - \$23,086)$ .

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

/jdb